

**MERCER COUNTY  
SCHOOL DISTRICT  
AUDIT REPORT  
JUNE 30, 2019**

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October 30, 2019

**INDEPENDENT AUDITOR'S REPORT**

Members of the Board of Education  
Mercer County School District  
Harrodsburg, Kentucky

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mercer County School District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Mercer County School District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, and Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mercer County School District as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedules of the district's proportionate share of net pension liabilities, or the schedules of the district's proportionate share of net other post-employment benefits on pages 4 through 10, 56 through 57, and 60 through 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mercer County School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the statement of receipts, disbursements and fund balance – High School Activity Fund, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated October 30, 2019, on our consideration of Mercer County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Mercer County School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mercer County School District's internal control over financial reporting and compliance.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

**MERCER COUNTY SCHOOL DISTRICT**  
**Management's Discussion and Analysis (MD&A)**  
**Year Ended June 30, 2019**

As management of the Mercer County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

**FINANCIAL HIGHLIGHTS**

- The General Fund's beginning fund balance was \$3,838,448. The ending fund balance was \$3,886,491. General fund revenues showed an increase of \$492,975 and expenditures showed an increase of \$34,634 as compared with the prior year. The General Fund transferred \$52,276 to the Special Revenue Fund for the technology grant match and \$43,349 to debt service for debt payments.
- The District had \$34.5 million in revenue and \$34.9 million in expenses.
- The District, through routine debt service, reduced bond debt through the Debt Service Fund. Bond payments for fiscal year 2019 totaled \$2.2 million in principal payments and \$679,390 in interest payments.
- The District's total net position decreased \$395,424 to \$5,629,872. Current assets increased by \$4,618,783, non-current assets increased by \$2,512,696 and total liabilities increased \$6,559,505 as compared to the prior year.

## OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**District-wide financial statements** - The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 11 - 12 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our day care and food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 13 - 20 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 21 - 54 of this report.

## DISTRICT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$5,629,872 as of June 30, 2019.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

### Net Position for the period ending June 30, 2019 and June 30, 2018

A comparison of June 30, 2019 and June 30, 2018 government wide net position is as follows:

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current and Other Assets	9,313,873	4,747,975	462,589	409,704	9,776,462	5,157,679
Capital Assets	47,156,486	44,649,625	74,530	68,695	47,231,016	44,718,320
Deferred Outflows	3,880,554	4,265,056	324,934	372,290	4,205,488	4,637,976
<b>Total Assets and Def Outflows</b>	<b>60,350,913</b>	<b>53,662,656</b>	<b>862,053</b>	<b>851,319</b>	<b>61,212,966</b>	<b>54,513,975</b>
Current Liabilities	3,497,635	2,972,319	2,570	2,448	3,500,205	2,974,767
Non-Current Liabilities	49,256,231	43,250,839	1,200,679	1,172,004	50,456,910	44,422,843
Deferred Inflows	1,497,865	975,496	128,114	115,573	1,625,979	1,091,069
<b>Total Liabilities and Def Inflows</b>	<b>54,251,731</b>	<b>47,198,654</b>	<b>1,331,363</b>	<b>1,290,025</b>	<b>55,583,094</b>	<b>48,488,679</b>
<b>Net Position</b>						
Net Investment in Capital Assets	12,683,151	17,032,161	74,530	68,695	12,757,681	17,100,856
Restricted	4,904,386	487,050	(543,840)	(507,401)	4,360,546	(20,351)
Unrestricted	(11,488,355)	(11,055,209)			(11,488,355)	(11,055,209)
<b>Total Net Position</b>	<b>\$6,099,182</b>	<b>\$6,464,002</b>	<b>(\$469,310)</b>	<b>(\$438,706)</b>	<b>\$5,629,872</b>	<b>\$6,025,296</b>

The following table presents a comparison of revenues, expenses and changes in net position for the fiscal years ended June 30, 2019 and June 30, 2018.

	Governmental Activities		Business – Type Activities		Total Primary Government	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>REVENUES</b>						
Program revenues						
Charges for services	1,650		55,574	50,877	57,224	50,877
Operating grants and contributions	3,261,961	3,254,731	1,454,203	1,362,457	4,716,164	4,617,188
Capital grants	38,068	40,897			38,068	40,897
General revenues						
Property taxes	8,246,187	8,104,008			8,246,187	8,104,008
Motor vehicle taxes	776,884	755,390			776,884	755,390
Utility Taxes	1,215,041	1,209,833			1,215,041	1,209,833
Other taxes	139,184	110,607			139,184	110,607
Investment earnings	52,967	29,089	1,785	1,393	54,752	30,482
State and formula grants	18,813,678	18,568,575			18,813,678	18,568,575
Miscellaneous	481,775	379,278		(1,447)	481,775	377,831
Total revenues	<u>33,027,395</u>	<u>32,452,408</u>	<u>1,511,562</u>	<u>1,413,280</u>	<u>34,538,957</u>	<u>33,865,688</u>
<b>EXPENSES</b>						
Program Activities						
Instructional	20,959,644	22,751,746			20,959,644	22,751,746
Student support	1,007,297	880,657			1,007,297	880,657
Instructional staff Support	1,087,191	1,186,423			1,087,191	1,186,423
District administrative support	993,829	948,901			993,829	948,901
School administrative support	2,046,855	1,704,563			2,046,855	1,704,563
Business support	691,765	584,030			691,765	584,030
Plant operations and maintenance	2,717,908	2,744,765			2,717,908	2,744,765
Student transportation	2,501,788	2,043,407			2,501,788	2,043,407
Community service activities	287,540	258,419			287,540	258,419
Other	144,872	53,752			144,872	53,752
Interest costs	953,526	841,754			953,526	841,754
Business-type Activities						
Food service			1,542,166	1,574,374	1,542,166	1,574,374
Total expenses	<u>33,392,215</u>	<u>33,998,417</u>	<u>1,542,166</u>	<u>1,574,374</u>	<u>33,390,565</u>	<u>35,572,791</u>
Change in net position	<u>(364,820)</u>	<u>(1,546,009)</u>	<u>(30,604)</u>	<u>(161,094)</u>	<u>(364,820)</u>	<u>(1,707,103)</u>

On-behalf amounts are included in the above figures. On-behalf payments are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits, administration fees, technology and debt service. The total on-behalf payments for 2019 and 2018 were \$7,307,259 and \$7,372,168 respectively.

**Governmental Activities**

For the governmental program expenses, instructional expenses comprise 63% of total expenses, support services equate to 34%, and interest and other expenses make up the remaining 3% of the total.

The cost of program services and the charges for services and grants offsetting those services are shown on the Statement of Activities. The Statement of activities identifies the net cost of services supported by tax revenue and unrestricted intergovernmental revenues (State entitlements).

	Governmental Activities Total Cost of Services		Governmental Activities Net Cost of Services	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Instructional	20,959,644	22,751,746	18,401,861	20,292,625
Support Services	11,115,190	10,146,498	10,689,527	9,602,801
Other	363,855	258,419	83,690	6,506
Interest Costs	953,526	841,754	915,458	800,857
Total Expenses	33,392,215	33,998,417	30,090,536	30,702,789

**Business-Type Activities**

The business type activities consist of the food service program. This program had total revenues of \$1,511,562 and expenses of \$1,542,166 for fiscal year 2019. These revenues were made up of \$55,230 in lunchroom sales, \$344 in other operating revenues, \$1,454,203 federal and state operating grants, and \$1,785 earnings on investments. These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

**The School District's Funds**

The information relative to the School District's Funds starts on page 13. These funds use the modified accrual basis of accounting to account for each fund's revenues and expenses. The combined revenue for all governmental funds for 2019 was \$33,020,695 and expenditures were \$37,492,909.

## **General Fund Budgetary Highlights**

The District's budget is based on accounting for certain transactions on the cash basis for receipts and expenditures and encumbrances and is prepared according to Kentucky law. The Kentucky Department of Education requires a zero-based budget with any remaining fund balance to be shown as a contingency expense in the budgeting process.

The most significant budgeted fund is the General Fund. The general fund had budgeted revenues of \$18,787,940 with actual revenue being \$26,928,670. Budgeted expenditures were \$22,637,940 compared to actual expenditures of \$26,880,627. The most significant cause of the variance between budget and actual was the state on-behalf payments in the amount of \$7,307,259 which are not budgeted.

## **Future Budgetary Implications**

In Kentucky, the public schools fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2018-2019 with a 2% contingency. The District has also adopted a budget for 2019-2020 with a 2% contingency.

The Board's obligation for contribution to the Kentucky Retirement System for classified employees increased for FY 2019 from 19.18% to 21.48%. The Kentucky Teachers Retirement had no contribution change at 3% on all employees and no contribution change on the federal grants matching at 16.105%. The Board's obligation for contribution to the Kentucky Retirement System for classified employees increased for FY 2020 from 21.48% to 24.06%. The Kentucky Teachers Retirement had no contribution change at 3% on all employees and no contribution change on the federal grants matching at 16.105%.

The SEEK base funding increased to \$4,000 per pupil in FY 2018-2019. The General Fund will be closely monitored to support District staffing.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of the 2019 fiscal year, the District had invested \$47,231,016 in a broad range of capital assets, including equipment, buses, buildings, and land net of accumulated depreciation. This amount represents a net increase of \$2,512,696. Depreciation expense for the year was \$1,956,415 and capital additions were \$4,469,111.

The table on the following page shows capital assets net of depreciation for the governmental activities, business-type activities and total primary government for fiscal years ended June 30, 2019 and 2018.

	Governmental Activities (Net of Depreciation)		Business - Type Activities (Net of Depreciation)		Total Primary Government (Net of Depreciation)	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Land	1,467,246	1,467,246			1,467,246	1,467,246
Construction In Progress	4,104,580	0			4,104,580	0
Buildings and Improvements	39,564,654	41,184,714			39,564,654	41,184,714
Technology	145,269	148,564			145,269	148,564
Vehicles	1,507,236	1,402,966			1,507,236	1,402,966
General Equipment	367,501	446,135	74,530	68,695	442,031	514,830
<b>Total</b>	<b>47,156,486</b>	<b>44,649,625</b>	<b>74,530</b>	<b>68,695</b>	<b>47,231,016</b>	<b>44,718,320</b>

The table below shows the changes in capital assets for fiscal years ended June 30, 2019 and 2018.

	Governmental Activities		Business - Type Activities		Total Primary Government	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Beginning Balance	44,649,625	46,351,683	68,695	79,327	44,718,320	46,431,010
Additions	4,455,573	289,215	13,538		4,469,111	289,215
Retirements		(478,907)		(49,189)		(528,096)
Depreciation	(1,948,712)	(1,512,366)	(7,703)	38,557	(1,956,415)	(1,473,809)
<b>Ending Balance</b>	<b>47,156,486</b>	<b>44,649,625</b>	<b>74,530</b>	<b>68,695</b>	<b>47,231,016</b>	<b>44,718,320</b>

### Long-Term Debt

At year-end the District had \$33,223,512 in bonds outstanding and \$1,157,564 in capital lease obligations. Bonded debt principal paid for the year ended June 30, 2019 was \$2,222,571. New construction bonds were entered into for \$8,755,000. The District entered into a capital lease agreement for \$350,993 to purchase buses. A total of \$2,617,212 is due within one year for principal payment on bonds and capital leases.

### Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and other interested readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District's Superintendent or Finance Director.

MERCER COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2019

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS:</b>			
Cash & Cash Equivalents - Note C	8,917,494	426,915	9,344,409
Accounts Receivable:			
Taxes - Current	192,103		192,103
Taxes - Delinquent	14,490		14,490
Accounts	60,961	15,326	76,287
Intergovernmental - State	65,179		65,179
Intergovernmental - Federal	63,646		63,646
Inventories for Consumption		20,348	20,348
Total Current Assets	9,313,873	462,589	9,776,462
<b>Noncurrent Assets - Note F</b>			
Land	1,467,246		1,467,246
Buildings & Improvements	67,026,857		67,026,857
Furniture & Equipment	7,683,948	188,069	7,872,017
Construction in Progress	4,104,580		4,104,580
Less: Accumulated Depreciation	(33,126,145)	(113,539)	(33,239,684)
Total Noncurrent Assets	47,156,486	74,530	47,231,016
<b>TOTAL ASSETS</b>	<b>56,470,359</b>	<b>537,119</b>	<b>57,007,478</b>
Deferred Outflows Related to Pensions	1,920,049	241,981	2,162,030
Deferred Outflows Related to Other Post Employment Benefits	1,159,287	82,953	1,242,240
Deferred Outflows Related to Advanced Bond Refundings	801,218		801,218
<b>TOTAL DEFERRED OUTFLOWS</b>	<b>3,880,554</b>	<b>324,934</b>	<b>4,205,488</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>60,350,913</b>	<b>862,053</b>	<b>61,212,966</b>
<b>LIABILITIES:</b>			
<b>Current Liabilities:</b>			
Accounts Payable	109,365	2,570	111,935
Accrued Salaries & Payroll Liabilities	9,258		9,258
Accrued Sick Leave - Note A	81,179		81,179
Advances from Grantors	323,194		323,194
KSBIT Assessment - Note R	42,622		42,622
Bond Obligations - Note D	2,463,512		2,463,512
Capital Lease Obligation - Note E	153,700		153,700
Accrued Interest Payable	314,805		314,805
Total Current Liabilities	3,497,635	2,570	3,500,205
<b>Noncurrent Liabilities:</b>			
Bond Obligations - Note D	30,852,259		30,852,259
Capital Lease Obligation - Note E	1,003,864		1,003,864
KSBIT Assessment - Note R	42,622		42,622
Net Pension Liability	7,397,183	931,187	8,328,370
Net Other Post Employment Benefits Liability	9,289,371	269,492	9,558,863
Accrued Sick Leave - Note A	670,932		670,932
Total Noncurrent Liabilities	49,256,231	1,200,679	50,456,910
<b>TOTAL LIABILITIES</b>	<b>52,753,866</b>	<b>1,203,249</b>	<b>53,957,115</b>
Deferred Inflows Related to Other Post Employment Benefits	885,542	51,151	936,693
Deferred Inflows Related to Pensions	612,323	76,963	689,286
<b>TOTAL DEFERRED INFLOWS</b>	<b>1,497,865</b>	<b>128,114</b>	<b>1,625,979</b>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS</b>	<b>54,251,731</b>	<b>1,331,363</b>	<b>55,583,094</b>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	12,683,151	74,530	12,757,681
Restricted for:			
Capital Projects	4,500,569		4,500,569
School Activities	402,088		402,088
SFCC Escrow	1,729		1,729
Food Service		(543,840)	(543,840)
Unrestricted	(11,488,355)		(11,488,355)
<b>TOTAL NET POSITION</b>	<b>6,099,182</b>	<b>(469,310)</b>	<b>5,629,872</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>60,350,913</b>	<b>862,053</b>	<b>61,212,966</b>

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019

FUNCTION/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET(EXPENSE) REVENUE AND CHANGES IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>GOVERNMENTAL ACTIVITIES:</b>							
Instructional	20,959,644	1,650	2,556,133		(18,401,861)		(18,401,861)
Support Services:							
Student Support Services	1,007,297		3,570		(1,003,727)		(1,003,727)
Staff Support Services	1,087,191		306,094		(781,097)		(781,097)
District Administration	993,829				(993,829)		(993,829)
School Administration	2,046,855				(2,046,855)		(2,046,855)
Business Support Services	691,765				(691,765)		(691,765)
Plant Operation & Maintenance	2,717,908		115,999		(2,601,909)		(2,601,909)
Student Transportation	2,501,788				(2,501,788)		(2,501,788)
Food Service Operations	68,557				(68,557)		(68,557)
Community Service Operations	287,540		280,165		(7,375)		(7,375)
Facilities Acquisition & Construction	76,315				(76,315)		(76,315)
Interest on Long-Term Debt	953,526			38,068	(915,458)		(915,458)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>33,392,215</b>	<b>1,650</b>	<b>3,261,961</b>	<b>38,068</b>	<b>(30,090,536)</b>		<b>(30,090,536)</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>							
Food Service	1,542,166	55,574	1,454,203			(32,389)	(32,389)
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>1,542,166</b>	<b>55,574</b>	<b>1,454,203</b>	<b>0</b>	<b>0</b>	<b>(32,389)</b>	<b>(32,389)</b>
<b>TOTAL SCHOOL DISTRICT</b>	<b>34,934,381</b>	<b>57,224</b>	<b>4,716,164</b>	<b>38,068</b>	<b>(30,090,536)</b>	<b>(32,389)</b>	<b>(30,122,925)</b>
<b>GENERAL REVENUES:</b>							
Taxes:							
Property					8,246,187		8,246,187
Motor Vehicle					776,884		776,884
Utility					1,215,041		1,215,041
Other					139,184		139,184
State Aid - Formula Grants					18,813,678		18,813,678
Investment Earnings					52,967	1,785	54,752
Miscellaneous					475,075		475,075
Gain(Loss) Sale of Assets					6,700		6,700
<b>TOTAL GENERAL REVENUES</b>					<b>29,725,716</b>	<b>1,785</b>	<b>29,727,501</b>
<b>CHANGE IN NET POSITION</b>					<b>(364,820)</b>	<b>(30,604)</b>	<b>(395,424)</b>
<b>NET POSITION - BEGINNING</b>					<b>6,464,002</b>	<b>(438,706)</b>	<b>6,025,296</b>
<b>NET POSITION - ENDING</b>					<b>6,099,182</b>	<b>(469,310)</b>	<b>5,629,872</b>

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2019

	GENERAL FUND	SPECIAL REVENUE	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS:</b>					
Cash & Cash Equivalents	3,771,583	194,755	4,548,956	402,200	8,917,494
Accounts Receivable:					
Taxes - Current	192,103				192,103
Taxes - Delinquent	14,490				14,490
Accounts	59,344			1,617	60,961
Intergovernmental - State		65,179			65,179
Intergovernmental - Federal		63,646			63,646
<b>TOTAL ASSETS</b>	<u>4,037,520</u>	<u>323,580</u>	<u>4,548,956</u>	<u>403,817</u>	<u>9,313,873</u>
<b>LIABILITIES AND FUND BALANCE:</b>					
Liabilities:					
Accounts Payable	60,592	386	48,387		109,365
Accrued Salaries & Sick Leave	90,437				90,437
Advances from Grantors		323,194			323,194
<b>Total Liabilities</b>	<u>151,029</u>	<u>323,580</u>	<u>48,387</u>	<u>0</u>	<u>522,996</u>
Fund Balance:					
Restricted for:					
Capital Projects			4,500,569		4,500,569
School Activities				402,088	402,088
SFCC Escrow				1,729	1,729
Committed For:					
Site Based Carryforward	55,509				55,509
Accrued Sick Leave	670,932				670,932
Unassigned	3,160,050				3,160,050
<b>Total Fund Balance</b>	<u>3,886,491</u>	<u>0</u>	<u>4,500,569</u>	<u>403,817</u>	<u>8,790,877</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>4,037,520</u>	<u>323,580</u>	<u>4,548,956</u>	<u>403,817</u>	<u>9,313,873</u>

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2019

Amounts reported for governmental activities in the statement of net position are different because:

TOTAL GOVERNMENTAL FUND BALANCE		8,790,877
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	80,282,631	
Accumulated Depreciation	<u>(33,126,145)</u>	47,156,486
Deferred Outflows Related to Bond Refundings are not current assets and therefore are not reported as assets in governmental funds.		801,218
Deferred Outflows Related to Pensions are not current assets and therefore are not reported as assets in governmental funds.		1,920,049
Deferred Outflows Related to Other Post Employment Benefits are not current assets and therefore are not reported as assets in governmental funds.		1,159,287
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds Payable	(33,223,512)	
Unamortized Bond Premiums	(262,981)	
Unamortized Bond Discounts	170,722	
Capital Lease Obligation	(1,157,564)	
Accrued Interest on Bonds	(314,805)	
KSBIT Assessment	(85,244)	
Net Pension Liability	(7,397,183)	
Net Other Post Employment Benefits Liability	(9,289,371)	
Accrued Sick Leave	<u>(670,932)</u>	(52,230,870)
Deferred Inflows Related to Other Post Employment Benefits are not current liabilities and therefore are not reported as liabilities in governmental funds.		(885,542)
Deferred Inflows Related to Pensions are not current liabilities and therefore are not reported as liabilities in governmental funds.		<u>(612,323)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>6,099,182</u></u>

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2019

	GENERAL	SPECIAL REVENUE	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES:</b>					
Taxes:					
Property	6,190,485			2,055,702	8,246,187
Motor Vehicle	776,884				776,884
Utility	1,215,041				1,215,041
Other	139,184				139,184
Earnings on Investments	33,680	877	17,455	955	52,967
Intergovernmental - State	17,707,779	1,385,242		1,105,899	20,198,920
Intergovernmental - Federal		1,876,719			1,876,719
Other Sources	177,364	30,882		306,547	514,793
<b>TOTAL REVENUES</b>	<b>26,240,417</b>	<b>3,293,720</b>	<b>17,455</b>	<b>3,469,103</b>	<b>33,020,695</b>
<b>EXPENDITURES:</b>					
Instructional	16,180,169	2,622,278		287,888	19,090,335
Support Services:					
Student Support Services	931,563	3,662			935,225
Staff Support Services	730,965	314,015		18,738	1,063,718
District Administration	982,945				982,945
School Administration	1,982,151				1,982,151
Business Support Services	717,269				717,269
Plant Operation & Maintenance	2,456,957	119,001			2,575,958
Student Transportation	2,564,367				2,564,367
Food Service Operation	66,647				66,647
Community Service Operations		287,415			287,415
Facilities Improvements			4,180,895		4,180,895
Debt Service:					
Principal	147,381			2,195,000	2,342,381
Interest	24,213			679,390	703,603
<b>TOTAL EXPENDITURES</b>	<b>26,784,627</b>	<b>3,346,371</b>	<b>4,180,895</b>	<b>3,181,016</b>	<b>37,492,909</b>
<b>EXCESS(DEFICIT) REVENUES OVER EXPENDITURES</b>	<b>(544,210)</b>	<b>(52,651)</b>	<b>(4,163,440)</b>	<b>288,087</b>	<b>(4,472,214)</b>
<b>OTHER FINANCING SOURCES(USES):</b>					
Proceeds from Bond Issuance			8,755,000		8,755,000
Bond Discount			(175,100)		(175,100)
Capital Lease Financing	350,993				350,993
Proceeds from Sale of Assets	6,700				6,700
Operating Transfers In - Note N	330,560	52,651		2,722,092	3,105,303
Operating Transfers Out - Note N	(96,000)			(3,009,303)	(3,105,303)
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>592,253</b>	<b>52,651</b>	<b>8,579,900</b>	<b>(287,211)</b>	<b>8,937,593</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>48,043</b>	<b>0</b>	<b>4,416,460</b>	<b>876</b>	<b>4,465,379</b>
<b>FUND BALANCES - BEGINNING</b>	<b>3,838,448</b>	<b>0</b>	<b>84,109</b>	<b>402,941</b>	<b>4,325,498</b>
<b>FUND BALANCES - ENDING</b>	<b>3,886,491</b>	<b>0</b>	<b>4,500,569</b>	<b>403,817</b>	<b>8,790,877</b>

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019

Amounts reported for governmental activities in the statement of net position are different because:

NET CHANGES - GOVERNMENTAL FUNDS		4,465,379
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.</p>		
Depreciation Expense	(1,948,712)	
Capital Outlays	4,455,573	
		2,506,861
<p>Bond proceeds and capital leases are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>		
Bond Proceeds	(8,755,000)	
Bond Discount	175,100	
Principal Paid	2,342,381	
Capital Lease Proceeds	(350,993)	
		(6,588,512)
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Amortization - Deferred Outflows from Advanced Bond Refundings	(128,452)	
Amortization - Bond Premiums	32,872	
Amortization - Bond Discounts	(4,378)	
District Pension Contributions	512,497	
Cost of Benefits Earned Net of Employee Contributions	(1,143,169)	
District Other Post Employment Benefits Contributions	562,816	
Cost of Benefits Earned Net of Employee Contributions - OPEB	(463,227)	
Accrued Interest Payable	(149,965)	
KSBIT Assessment	42,622	
Accrued Sick Leave	(10,164)	
		(748,548)
CHANGES - NET POSITION GOVERNMENTAL FUNDS		(364,820)

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2019

	ENTERPRISE FUND
	FOOD SERVICE
ASSETS:	
Current Assets:	
Cash & Cash Equivalents	426,915
Accounts Receivables	15,326
Inventories for Consumption	20,348
Total Current Assets	462,589
Noncurrent Assets:	
Furniture & Equipment	188,069
Less: Accumulated Depreciation	(113,539)
Total Noncurrent Assets	74,530
<b>TOTAL ASSETS</b>	<b>537,119</b>
Deferred Outflows Related to Other Post Employment Benefits	82,953
Deferred Outflows Related to Pensions	241,981
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>862,053</b>
LIABILITIES:	
Current Liabilities:	
Account Payable	2,570
Total Current Liabilities	2,570
Noncurrent Liabilities:	
Net Other Post Employment Benefits Liability	269,492
Net Pension Liability	931,187
Total Noncurrent Liabilities	1,200,679
<b>TOTAL LIABILITIES</b>	<b>1,203,249</b>
Deferred Inflows Related to Other Post Employment Benefits	51,151
Deferred Inflows Related to Pensions	76,963
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS</b>	<b>1,331,363</b>
Net Position:	
Net Investment in Capital Assets	74,530
Restricted	(543,840)
Total Net Position	(469,310)
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>862,053</b>

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2019

	ENTERPRISE FUND
	FOOD SERVICE
OPERATING REVENUES:	
Lunchroom Sales	55,230
Other Operating Revenues	344
TOTAL OPERATING REVENUES	55,574
OPERATING EXPENSES:	
Salaries & Benefits	667,623
Contract Services	42,848
Materials & Supplies	820,698
Depreciation - Note F	7,703
Other Operating Expenses	3,294
TOTAL OPERATING EXPENSES	1,542,166
OPERATING INCOME(LOSS)	(1,486,592)
NONOPERATING REVENUES(EXPENSES):	
Federal Grants	1,254,206
State Grants	102,701
Donated Commodities	97,296
Interest Income	1,785
TOTAL NONOPERATING REVENUE	1,455,988
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(30,604)
CAPITAL CONTRIBUTIONS	0
CHANGE IN NET POSITION	(30,604)
TOTAL NET POSITION - BEGINNING	(438,706)
TOTAL NET POSITION - ENDING	(469,310)

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2019

	FOOD SERVICE
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash Received from:	
Lunchroom Sales	55,230
Other Activities	344
Cash Paid to/for:	
Employees	(499,137)
Supplies	(728,324)
Other Activities	(46,142)
	(1,218,029)
Net Cash Used by Operating Activities	(1,218,029)
<b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Federal Grants	1,247,176
State Grants	23,417
	1,270,593
Net Cash Provided by Non-Capital and Related Financing Activities	1,270,593
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Purchase of Capital Assets	(13,538)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Receipt of Interest Income	1,785
	40,811
Net Increase (Decrease) in Cash and Cash Equivalents	40,811
Balances, Beginning of Year	386,104
Balances, End of Year	426,915
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>	
Operating Income (Loss)	(1,486,592)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities	
Depreciation	7,703
State On-Behalf Payments	79,284
Donated Commodities	97,296
Change in Assets, Deferred Outflows, Liabilities and Deferred Inflows:	
Deferred Outflows	47,986
Deferred Inflows	12,541
Net Pension Liability	57,083
Net Other Post Employment Benefits	(28,408)
Inventory	(5,044)
Accounts Payable	122
	(1,218,029)
Net Cash Used by Operating Activities	(1,218,029)
<b>Schedule of Non-Cash Transactions:</b>	
Donated Commodities	97,296
State On-Behalf Payments	79,284

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2019

	<u>AGENCY FUND</u>
ASSETS:	
Cash and Cash Equivalents	114,340
TOTAL ASSETS	<u>114,340</u>
LIABILITIES:	
Due to Student Groups	114,340
TOTAL LIABILITIES	<u>114,340</u>
NET POSITION HELD IN TRUST	<u>0</u>

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2019

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The Mercer County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Mercer County Board of Education (“District”). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Mercer County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organizations are included in the accompanying financial statements:

Mercer County Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Mercer County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

Government-Wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

### I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards and related notes. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
  1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
  3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law. This is a major fund of the District.

### II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

### III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organization, or other governments.

### Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Nonexchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Proprietary Fund operating revenues are defined as revenues received from the direct purchases of products and services (i.e. food service). Non-operating revenues are not related to direct purchases of products; for the District, these revenues are typically investment income and state and federal grant revenues.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource is required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of costs, such as depreciation, are not recognized in governmental funds.

### Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2019, to finance the General Fund operations were \$0.692 per \$100 valuation for real property, \$0.692 per \$100 valuation for business personal property, and \$0.491 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gases.

### Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<b>Description</b>	<b>Governmental Activities Estimated Lives</b>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

On fund financial statements, receivables and payable resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

Budgetary Process

**Budgetary Basis of Accounting:** The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

### Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

### Inventories

On government-wide financial statements, inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method.

### Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Position.

### Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

### Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Formal School Board action must be taken during an open meeting to establish, modify, or rescind a fund balance commitment.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Superintendent.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

The District committed the following fund balance type by taking the following action:

<u>Fund Balance Type</u>	<u>Amount</u>	<u>Action</u>
General Fund	670,932	Long-Term Sick Leave Commitment
General Fund	55,509	Site Based Carryforward

The District uses *restricted/committed* amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the District would first use *committed*, then *assigned*, and lastly *unassigned* amounts for unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Special Revenue	State, Local and Federal Grants

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

### Pensions

Teachers' Retirement System - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' Retirement System of the State of Kentucky (TRS) and additions to/deductions from TRS's fiduciary net position have been determined on the same basis as they are reported by TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

County Employees Retirement System - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System of the State of Kentucky (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Since certain expense items are amortized over the closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense the amounts are labeled deferred inflows. If amounts will increase pension expense the amounts are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average expected remaining service life of the active and inactive plan members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period.

### Postemployment Benefits Other Than Pensions

Teachers' Retirement System – For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Teachers' Retirement System of the State of Kentucky (TRS) and additions to/deductions from TRS's fiduciary net position have been determined on the same basis as they are reported by TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

County Employees Retirement System - For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Employees Retirement System of the State of Kentucky (CERS) and

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Since certain expense items are amortized over the closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense the amounts are labeled deferred inflows. If amounts will increase pension expense the amounts are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average expected remaining service life of the active and inactive plan members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period.

### NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits. Custodial Credit is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$9,458,749. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

Cash and cash equivalents at June 30, 2019, consisted of the following:

	<b>Bank Balance</b>	<b>Book Balance</b>
Farmers Bank	10,141,771	9,458,749
Breakdown per financial statements:		
Governmental Funds		8,917,494
Proprietary Funds		<u>426,915</u>
Cash per Statement of Net Position		9,344,409
Agency Funds		<u>114,340</u>
Total Cash		<u>9,458,749</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE D – LONG TERM OBLIGATIONS**

The amount shown in the accompanying financial statements as bond obligations represents the District's future obligations to make payments relating to the bonds issued by the Mercer County School District Finance Corporation in the original amount aggregating \$39,625,000.

The original amount of each issue and interest rates are summarized below:

2010 Refunding	1,785,000	0.50% - 2.60%
2012 Refunding	1,885,000	0.75% - 2.125%
2013 Refunding	1,845,000	1.05% - 2.00%
2013	2,400,000	2.00% - 4.00%
2014 Refunding	4,115,000	1.75% - 3.50%
2015	645,000	3.15%
2016 Refunding	18,195,000	2.00% - 3.00%
2019 Energy	8,070,000	3.00% - 3.75%
2019	685,000	3.25% - 3.50%

The District, through the General Fund (including utility taxes and the SEEK Capital Outlay Fund) is obligated to make bond payments in amounts sufficient to satisfy debt service requirements on bonds issued by Mercer County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 1995 the Board entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The Kentucky School Construction Commission's participation is limited to the biennial budget period of the Commonwealth of Kentucky with the right reserved by the Kentucky School Construction Commission to terminate the commitment to pay the agreed participation every two years. The obligation of the Kentucky School Construction Commission to make the agreed payments automatically renews each two years for a period of two years unless the Kentucky School Construction Commission gives notice of its intention not to participate not less than sixty days prior to the end of its biennium.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2019, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2019-20	2,463,512	950,865	184,229	3,230,148
2020-21	2,440,000	879,486	185,174	3,134,312
2021-22	2,490,000	828,559	184,362	3,134,197
2022-23	2,540,000	777,053	183,550	3,133,503
2023-24	2,605,000	722,978	187,023	3,140,955
2024-25	2,660,000	669,239	184,159	3,145,080
2025-26	2,745,000	591,944	183,186	3,153,758
2026-27	2,820,000	515,062	182,211	3,152,851
2027-28	1,505,000	415,754	116,928	1,803,826
2028-29	1,555,000	366,608	120,879	1,800,728
2029-30	1,615,000	313,791	119,654	1,809,137
2030-31	1,670,000	258,513	114,537	1,813,975
2031-32	805,000	216,479	106,192	915,287
2032-33	850,000	188,298	109,968	928,330
2033-34	890,000	157,313	96,665	950,647
2034-35	670,000	129,978	47,525	752,453
2035-36	700,000	106,668	46,125	760,543
2036-37	700,000	82,163	49,725	732,438
2037-38	735,000	56,025	48,150	742,875
<u>2038-39</u>	<u>765,000</u>	<u>28,575</u>	<u>46,576</u>	<u>747,000</u>
	<u>33,223,512</u>	<u>8,255,351</u>	<u>2,496,818</u>	<u>38,982,043</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Long-term liability activity for the year ended June 30, 2019, was as follows:

	Beginning Balance - Restated	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government</b>					
Governmental Activities:					
Revenue Bonds Payable	26,691,083	8,755,000	(2,222,571)	33,223,512	2,463,512
Add: Bond Premium	295,854	0	(32,873)	262,981	0
Less: Bond Discount	<u>0</u>	<u>(175,100)</u>	<u>4,378</u>	<u>(170,722)</u>	<u>0</u>
Net Revenue Bonds Payable	26,986,937	8,579,900	(2,251,066)	33,315,771	2,463,512
Capital Lease Obligations	926,381	350,993	(119,810)	1,157,564	153,700
KSBIT Assessment	127,866	0	(42,622)	85,244	42,622
Net Pension Liability	6,940,003	457,180	0	7,397,183	0
Net OPEB Liability	9,993,887	0	(704,516)	9,289,371	0
Accrued Sick Leave	<u>767,788</u>	<u>115,364</u>	<u>(131,041)</u>	<u>752,111</u>	<u>81,179</u>
Total Governmental Activities:	45,742,862	9,503,437	(3,249,055)	51,997,244	2,741,013
Proprietary Activities:					
Net OPEB Liability	297,900	0	(28,408)	269,492	0
Net Pension Liability	<u>874,104</u>	<u>57,083</u>	<u>0</u>	<u>931,187</u>	<u>0</u>
Long-Term Liabilities	<u>46,914,866</u>	<u>9,560,520</u>	<u>(3,277,463)</u>	<u>53,197,923</u>	<u>2,741,013</u>

**NOTE E - CAPITAL LEASE PAYABLE**

The District is the lessee of buses under capital leases expiring in various years through 2028. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2019.

The following is a summary of property held under capital leases:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2019</u>
Buses	1,663,549
Accumulated Amortization	<u>(591,595)</u>
	<u>1,071,954</u>

The following is a schedule by years of the future principal payments under capital leases as of June 30, 2019:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2020	184,218
2021	179,392
2022	168,622
2023	168,573
2024	144,150
2025-2029	<u>458,297</u>
Net minimum lease payments	1,303,252
Amount representing interest	<u>(145,688)</u>
Present value of net minimum lease payments	<u>1,157,564</u>

Interest rates on capitalized leases vary from 2.00% to 3.00%. The capital leases provide for the buses to revert to the District at the end of the respective lease with no further payment for purchase.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE F - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
<b>GOVERNMENTAL ACTIVITIES:</b>				
Non-Depreciable Assets:				
Land	1,467,246			1,467,246
Construction in Progress	-	4,104,580		4,104,580
Depreciable Assets:				
Buildings & Building Improvements - Restated	67,026,857			67,026,857
Technology Equipment	254,301			254,301
Vehicles	5,113,026	350,993		5,464,019
General Equipment	1,965,628			1,965,628
<b>TOTAL AT HISTORICAL COST</b>	<b>75,827,058</b>	<b>4,455,573</b>	-	<b>80,282,631</b>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>				
Buildings & Building Improvements - Restated	25,842,143	1,620,060		27,462,203
Technology Equipment	105,737	3,295		109,032
Vehicles	3,710,060	246,723		3,956,783
General Equipment	1,519,493	78,634		1,598,127
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>31,177,433</b>	<b>1,948,712</b>	-	<b>33,126,145</b>
<b>GOVERNMENTAL ACTIVITIES CAPITAL NET</b>	<b>44,649,625</b>	<b>2,506,861</b>	-	<b>47,156,486</b>
<b>PROPRIETARY ACTIVITIES:</b>				
Depreciable Assets:				
General Equipment	174,531	13,538		188,069
<b>TOTALS AT HISTORICAL COST</b>	<b>174,531</b>	<b>13,538</b>	-	<b>188,069</b>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>				
General Equipment	105,836	7,703		113,539
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>105,836</b>	<b>7,703</b>	-	<b>113,539</b>
<b>PROPRIETARY ACTIVITIES CAPITAL NET</b>	<b>68,695</b>	<b>5,835</b>	-	<b>74,530</b>
<b>DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:</b>				
Instructional				1,549,801
Student Support Services				43,207
District Administration				1,320
School Administration				2,084
Business Support Services				636
Plant Operation & Maintenance				109,679
Student Transportation				241,860
Community Service Operations				125
<b>TOTAL</b>				<b>1,948,712</b>

**NOTE G – RETIREMENT PLANS**

The District’s employees are provided with two pension plans, based on each position’s college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

**General information about the County Employees Retirement System Non-Hazardous (“CERS”)**

*Plan description*—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

*Benefits provided*—CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years’ service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old OR age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service or 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old OR age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not Available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years’ service and hire date multiplied by the average of the highest five years’ earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years’ service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent’s beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent’s monthly final rate of pay and any dependent child will receive 10% of the decedent’s monthly final rate of pay up to 40% for all dependent children. Five years’ service is required for nonservice-related disability benefits

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Contributions—Required contributions by the employee are based on the tier:

	<u>Required Contributions</u>
Tier 1	5%
Tier 2	5% +1% for insurance
Tier 3	5% +1% for insurance

**General information about the Teachers' Retirement System of the State of Kentucky ("TRS")**

*Plan description*—Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky (TRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. TRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at [http://www.TRS.ky.gov/05\\_publications/index.htm](http://www.TRS.ky.gov/05_publications/index.htm).

*Benefits provided*—For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years.

In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. TRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

**Contributions**—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.855% of their salaries to the System. University employees are required to contribute 10.40% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 8.185% of their salary to TRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 16.105% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

### **Medical Insurance Plan**

*Plan description*—In addition to the pension benefits described above, KRS 161.675 requires TRS to provide post-employment healthcare benefits to eligible employees and dependents. The TRS Medical Insurance Fund is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

*Funding policy*—In order to fund the post-retirement healthcare benefit, six percent (6%) of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent (3%) is paid by member contributions and three quarters percent (.75%) from Commonwealth appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

At June 30, 2019, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for TRS because the Commonwealth of Kentucky provides the pension support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

District's proportionate share of the CERS net pension liability	\$ 8,328,370
Commonwealth's proportional share of the TRS net pension liability associated with the District	<u>51,890,013</u>
	<u>\$ 60,218,383</u>

The net pension liability for each plan was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2018, the District's proportion was 0.136748% percent.

For the year ended June 30, 2019, the District recognized pension expense of \$1,285,906 related to CERS and \$3,759,824 related to TRS. The District also recognized revenue of \$3,759,824 for TRS support provided by the Commonwealth. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 271,648	\$ 121,910
Changes of assumptions	813,924	-
Net difference between projected and actual earnings on pension plan investments	387,275	487,137
Changes in proportion and differences between District contributions and proportionate share of contributions	112,696	80,239
District contributions subsequent to the measurement date	<u>576,487</u>	<u>-</u>
Total	<u>\$ 2,162,030</u>	<u>\$ 689,286</u>

\$576,487 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2020	655,431
2021	361,137
2022	(75,609)
2023	(44,702)
2024	-

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

*Actuarial assumptions*—The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Teachers' Retirement System (TRS)

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Investment rate of return	7.50%, net of pension plan investment expenses, including inflation
Projected salary increases	4.0-8.2%, includes inflation
Cost of living adjustments	1.50% annually
Inflation rate	3.50%

County Employees' Retirement System (CERS)

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2018
Experience Study	July 1, 2008-June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5-year smoothed market
Investment rate of return	6.25%, net of pension plan investment expenses, including inflation
Projected salary increases	3.05% average, includes inflation
Inflation rate	2.30%

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

For TRS, Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2015.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the system. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

For TRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	40.00%	4.20%
International Equity	22.00%	5.20%
Fixed Income	15.00%	1.20%
Additional Categories	8.00%	3.30%
Real Estate	6.00%	3.80%
Private Equity	7.00%	6.3%
Cash	2.0%	.9%
Total	100.0%	

For CERS the target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
<b>U.S. Equity</b>	<b>17.50%</b>	
U.S. Large Cap	5.00%	4.50%
U.S. Mid Cap	6.00%	4.50%
U.S. Small Cap	6.50%	5.50%
<b>Non U.S. Equity</b>	<b>17.50%</b>	
International Developed	12.50%	2.63%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
<b>Credit Fixed</b>	<b>24.00%</b>	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.0%	1.5%
Total	100.0%	6.09%

*Discount rate*—For CERS, the discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For TRS, the discount rate used to measure the total pension liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2040 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2039 and a municipal bond index rate of 3.01% was applied to all periods of projected benefit payments after 2039. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

*Sensitivity of CERS and TRS proportionate share of net pension liability to changes in the discount rate*—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	10,484,555	8,328,370	6,521,864
TRS	5.50%	6.50%	7.50%
District's proportionate share of net pension liability	0	0	0

*Pension plan fiduciary net position*—Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

**NOTE H – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

Teachers’ Retirement System of Kentucky

*Plan description* – Teaching-certified employees of the Kentucky School District are provided OPEBs through the Teachers’ Retirement System of the State of Kentucky (TRS)—a cost-sharing multiple-employer defined benefit OPEB plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). TRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth’s financial statements. TRS issues a publicly available financial report that can be obtained at <https://trs.ky.gov/financial-reports-information>.

The state reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the TRS Medical Insurance and Life Insurance Plans. The following information is about the TRS plans:

**Medical Insurance Plan**

*Plan description* – In addition to the OPEB benefits described above, Kentucky Revised Statute 161.675 requires TRS to provide post-employment healthcare benefits to eligible members and dependents. The TRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

*Benefits provided* – To be eligible for medical benefits, the member must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. TRS retired members are given a supplement to be used for payment of their health insurance premium. The amount of the member’s supplement is based on a contribution supplement table approved by the TRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

*Contributions* – In order to fund the post-retirement healthcare benefit, seven and one-half percent (7.50%) of the gross annual payroll of members is contributed. Three percent (3.75%) is paid by member contributions and three quarters percent (.75%) from state appropriation and three percent (3.00%) from the employer. The state contributes the net cost of health insurance premiums for members who retired on or after July 1, 2010 who are in the non-Medicare eligible group. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

At June 30, 2019, the Mercer County District reported a liability of \$7,131,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District’s long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the District’s proportion was .2055 percent, compared to .2134 at June 30, 2017.

The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District’s proportionate share of the net OPEB liability	\$ 7,131,000
State’s proportionate share of the net OPEB liability associated with the District	<u>6,146,000</u>
Total	<u>\$13,277,000</u>

For the year ended June 30, 2019, the District recognized OPEB expense of \$213,298 and revenue of \$319,167 for support provided by the State. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 365,228
Changes of assumptions	98,289	-
Net difference between projected and actual earnings on pension plan investments	-	29,003
Changes in proportion and differences between District contributions and proportionate share of contributions	-	81,639
District contributions subsequent to the measurement date	<u>396,618</u>	<u>-</u>
Total	<u>494,907</u>	<u>475,870</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Of the total amount reported as deferred outflows of resources related to OPEB, \$396,618 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

<b>Year ended June 30:</b>	
2020	\$ (74,657)
2021	(74,657)
2022	(74,657)
2023	(61,767)
2024	(64,452)
Thereafter	(27,391)

*Actuarial assumptions* – The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Healthcare cost trend rates	
Under 65	7.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023
Ages 65 and Older	5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020
Medicare Part B Premiums	1.02% for FY 2017 with an ultimate rate of 5.00% by 2029
Municipal Bond Index Rate	3.56%
Discount Rate	8.00%
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including inflation.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2018 valuation were based on a review of recent plan experience done concurrently with the June 30, 2018 valuation.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
Global Equity	58.0%	4.6%
Fixed Income	9.0%	1.2%
Real Estate	5.5%	3.8%
Private Equity	6.5%	6.3%
Additional Categories	20.0%	3.3%
Cash	1.0%	0.9%
Total	<u>100.0%</u>	

*Discount rate* - The discount rate used to measure the total OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 8.00%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
TRS	7.00%	8.00%	9.00%
District's proportionate share of net OPEB liability	8,362,000	7,131,000	6,105,000

*Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates* – The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of net OPEB liability	5,913,000	7,131,000	8,634,000

*OPEB plan fiduciary net position* – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TRS financial report.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Life Insurance Plan**

*Plan description – Life Insurance Plan* – TRS administers the life insurance plan as provided by Kentucky Revised Statute 161.655 to eligible active and retired members. The TRS Life Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the life insurance plan may be made by the TRS Board of Trustees and the General Assembly.

*Benefits provided* – TRS provides a life insurance benefit of five thousand dollars payable for members who retire based on service or disability. TRS provides a life insurance benefit of two thousand dollars payable for its active contributing members. The life insurance benefit is payable upon the death of the member to the member’s estate or to a party designated by the member.

*Contributions* – In order to fund the post-retirement life insurance benefit, three hundredths of one percent (.03%) of the gross annual payroll of members is contributed by the state.

At June 30, 2019, the Kentucky School District did not report a liability for its proportionate share of the collective net OPEB liability for life insurance benefits because the State of Kentucky provides the OPEB support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District’s proportionate share of the net OPEB liability	-0-
State’s proportionate share of the net OPEB liability associated with the District	<u>105,000</u>
Total	<u>\$ 105,000</u>

*Actuarial assumptions* – The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation.
Projected salary increases	4.00-8.10%, including inflation
Inflation rate	3.5%
Real Wage Growth	0.50%
Wage Inflation	4.00%
Municipal Bond Index Rate	3.56%
Discount Rate	7.50%
Single Equivalent Interest Rate	7.50%, net of OPEB plan investment expense, including inflation.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, rate of plan participation, rates of plan election, etc.) used in the June 30, 2018 valuation were based on a review of recent plan experience done concurrently with the June 30, 2018 valuation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS’s investment consultant, are summarized in the following table:

<u>Asset Class*</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
U.S. Equity	40.0%	4.2%
International Equity	23.0%	5.2%
Fixed Income	18.0%	1.2%
Real Estate	6.0%	3.8%
Private Equity	5.0%	6.3%
Additional Categories	6.0%	3.3%
Cash	2.0%	90.0%
Total	<u>100.0%</u>	

*\*As the LIF investment policy is to change, the above reflects the pension allocation and returns that achieve the target 7.5% long-term rate of return.*

*\*\*Modeled as 50% High Yield and 50% Bank Loans.*

*Discount rate* - The discount rate used to measure the total OPEB liability for life insurance was 7.50%. The projection of cash flows used to determine the discount rate assumed that the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

*OPEB plan fiduciary net position* – Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued TRS financial report.

County Employees’ Retirement System of Kentucky

*Plan description* – Classified (non-certified) employees of the Kentucky School District are provided OPEBs through the County Employees Retirement System of the State of Kentucky (CERS)—a cost-sharing multiple-employer defined benefit OPEB plan retirement annuity plan coverage for local school districts and other public agencies in the state. CERS was established July 1, 1958 by the state legislature. CERS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth’s financial statements. CERS issues a publicly available financial report that can be obtained at <https://kyret.ky.gov/About/Board-of-Trustees/Pages/CAFR-and-SAFR.aspx>.

The state reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the CERS Medical Insurance. The following information is about the CERS plans:

**Medical Insurance Plan**

*Plan description* –The Kentucky Retirement Systems’ Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS, and SPRS, the state retirement options. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. It is noted that while this insurance fund covers employees eligible through KERS, CERS, and SPRS, only the portion related to CERS is applicable to Mercer County School District since the District does not have or qualify to have employees participate in KERS or SPRS.

*Benefits provided* – Medical Insurance coverage is provided based on the member’s initial participation date and length of service. Members received either a percentage or dollar amount for insurance coverage. The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Years of Service</u>	<u>Paid By Insurance Fund (%)</u>
20+	100%
15-19	75%
10-14	50%
4-9	25%
Less than 4	0%

Medical insurance benefits are calculated differently for members who began participating on or after July 1, 2003. Once members reach a vesting period of 10 years, non-hazardous employees whose participation began on or after July 1, 2003 earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands. Only benefit descriptions applicable to CERS Non-Hazardous have been included with this information since only that portion is applicable to the District.

*Contributions* – In order to fund the post-retirement healthcare benefit, four and seventy tenths percent (4.70%) of the gross annual payroll of members is contributed for the year ended June 30, 2019 for CERS Non-Hazardous, which is the portion of the plan applicable to the District, and this portion is paid 100% paid by employer contributions. One percent (1.00%) is contributed by employees hired on or after September 1, 2008.

At June 30, 2019, the Mercer County District reported a liability of \$2,427,863 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District’s long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the District’s proportion was .136744 percent, as compared to .133499 percent at June 30, 2017.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	\$ 2,427,863
State's proportionate share of the net OPEB liability associated with the District	<u>-0-</u>
Total	<u>\$ 2,427,863</u>

For the year ended June 30, 2019, the District recognized OPEB expense of \$281,135. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 282,935
Changes of assumptions	484,880	5,609
Net difference between projected and actual earnings on pension plan investments	-	167,232
Changes in proportion and differences between District contributions and proportionate share of contributions	36,338	5,047
District contributions subsequent to the measurement date	<u>226,115</u>	<u>-</u>
Total	<u>747,333</u>	<u>460,823</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$226,115 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

<b>Year ended June 30:</b>	
2019	\$ 14,318
2020	14,318
2021	14,318
2022	46,798
2023	(15,432)
Thereafter	(13,925)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

*Actuarial assumptions* – The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2018
Experience Study	July 1, 2008-June 30 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pat
Remaining Amortization Period	28 Years, Closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Investment rate of return	6.25%
Projected salary increases	3.05% average
Inflation rate	2.30%
Payroll Growth Rate	4.00%
Wage Inflation	3.50%
Healthcare cost trend rates	
Under 65	Initial trend starting at 7.0% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years
Ages 65 and Older	Initial trend starting at 5.0% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table Projected with Scale BB to 2013 (Set-back for one year for females) For Disabled members, the RP-2000 Combined Disability Mortality Table projected with Scale BB to 2013(set back four years for males) is used for period after disability retirement.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
<b>U.S. Equity</b>	<b>17.50%</b>	
U.S. Large Cap	5.00%	4.50%
U.S. Mid Cap	6.00%	4.50%
U.S. Small Cap	6.50%	5.50%
<b>Non U.S. Equity</b>	<b>17.50%</b>	
International Developed	12.50%	2.63%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
<b>Credit Fixed</b>	<b>24.00%</b>	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.0%	1.5%
Total	100.0%	6.09%

*Discount rate* - The discount rate used to measure the total OPEB liability was 5.85%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.85%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.85%) or 1-percentage-point higher (6.85%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	4.85%	5.85%	6.85%
District's proportionate share of net OPEB liability	3,153,404	2,427,863	1,809,834

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

*Sensitivity of the District’s proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates* – The following presents the District’s proportionate share of the collective net OPEB liability, as well as what the District’s proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Systems’ net pension liability	1,807,568	2,427,863	3,159,012

*OPEB plan fiduciary net position* – Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued CERS financial report.

**NOTE I – CONTINGENCIES**

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor’s review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected, to be significant. Continuation of the District’s grant programs is predicated upon the grantors’ satisfaction that the funds provided are being spent as intended and the grantors’ intent to continue their programs.

**NOTE J – INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively related including Workers’ Compensation insurance.

**NOTE K – RISK MANAGEMENT**

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers’ compensation, errors and omissions, and general liability coverage, the District obtains quotes from commercial insurance companies. Currently, the District maintains insurance coverage through Ohio Casualty Insurance Company.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE L – DEFICIT OPERATING BALANCES**

The Food Service Fund had a deficit fund balance in the amount of \$469,310 at June 30, 2019. Additionally, the following funds have operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

Special Revenue	52,651
General	544,210
Construction Fund	4,163,440
Debt Service Fund	2,722,092
District Activity Fund	79

**NOTE M – COBRA**

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

**NOTE N – TRANSFER OF FUNDS**

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	52,276
Operating	General	Special Revenue	Operations	375
Operating	Building	General	Operations	81,628
Operating	Capital Outlay	General	Operations	248,932
Operating	General	Debt Service	Debt Service	43,349
Operating	Building Fund	Debt Service	Debt Service	<u>2,678,743</u>
Total Transferred Funds				<u>3,105,303</u>

**NOTE O – COMMITMENTS**

Mercer County School District is renovating several schools to be more energy efficient and to improve its existing facilities. Construction for these projects is ongoing as of the audit date. It is anticipated that the completion of these projects will cost an additional \$4,456,973.

**NOTE P – SUBSEQUENT EVENTS**

Management has reviewed subsequent events through October 30, 2019, the date the financials were available for release. There are no material subsequent events to disclose.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE Q – ON-BEHALF PAYMENT**

For the year ended June 30, 2019, \$7,307,259 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, administrative fees, technology, and debt service were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were recorded as follows:

Teachers Retirement System (GASB 68 Schedule A)	\$3,759,824
Teachers Retirement system (GASB 75)	319,167
Health Insurance	2,882,465
Life Insurance	4,821
Administrative Fee	39,922
HRA/Dental/Vision	182,322
Federal Reimbursement	(124,030)
Technology	91,425
SFCC Debt Service Payments	<u>151,343</u>
Total	<u>\$7,307,259</u>

**NOTE R – KSBIT ASSESSMENT**

As of June 30, 2013, Kentucky School Boards Insurance Trust (KSBIT) was disbanded. On January 14, 2013, school districts in Kentucky were notified that if they had been participating members in KSBIT Workers' Compensation Self-Insurance Pool or its Property and Liability Self-Insurance Pool, they would be required to pay an assessment to repay their portion of the losses incurred by KSBIT. The total assessment for all participants is expected to be between \$50 million and \$60 million. As of June 30, 2019, Mercer County School District's remaining assessment is valued at \$85,244. This has been recorded as a long-term liability on the government-wide financial statements. However, the District may be given an additional assessment in the future if KSBIT incurs additional losses as a result of ongoing litigation. The District has elected to pay this assessment according to the following schedule:

<u>Year Ending June 30,</u>	<u>KSBIT Assessment Payable</u>
2020	42,622
2021	<u>42,622</u>
Total	<u>85,244</u>

REQUIRED SUPPLEMENTARY  
INFORMATION

MERCER COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2019

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<b>REVENUES:</b>				
Taxes	7,744,360	7,744,360	8,321,594	577,234
Other Local Sources	40,000	40,000	33,680	(6,320)
State Sources	10,424,000	10,424,000	17,707,779	7,283,779
Other Sources	579,580	579,580	865,617	286,037
<b>TOTAL REVENUES</b>	<b>18,787,940</b>	<b>18,787,940</b>	<b>26,928,670</b>	<b>8,140,730</b>
<b>EXPENDITURES:</b>				
Instructional	11,444,522	11,444,522	16,180,169	(4,735,647)
Student Support Services	687,694	687,694	931,563	(243,869)
Staff Support Services	486,358	486,358	730,965	(244,607)
District Administration	975,016	975,016	982,945	(7,929)
School Administration	1,388,190	1,388,190	1,982,151	(593,961)
Business Support Services	498,088	498,088	717,269	(219,181)
Plant Operation & Maintenance	2,680,086	2,680,086	2,456,957	223,129
Student Transportation	2,087,708	2,087,708	2,564,367	(476,659)
Food Service Operations	67,398	67,398	66,647	751
Other	2,322,880	2,322,880	267,594	2,055,286
<b>TOTAL EXPENDITURES</b>	<b>22,637,940</b>	<b>22,637,940</b>	<b>26,880,627</b>	<b>(4,242,687)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(3,850,000)</b>	<b>(3,850,000)</b>	<b>48,043</b>	<b>3,898,043</b>
<b>FUND BALANCES - BEGINNING</b>	<b>3,850,000</b>	<b>3,850,000</b>	<b>3,838,448</b>	<b>0</b>
<b>FUND BALANCES - ENDING</b>	<b>0</b>	<b>0</b>	<b>3,886,491</b>	<b>3,898,043</b>

On-behalf payments totaling \$7,307,259 are not budgeted by the Mercer County School District.

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND  
FOR THE YEAR ENDED JUNE 30, 2019

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Other Local Sources	25,500	25,500	31,759	6,259
State Sources	1,441,741	1,441,741	1,385,242	(56,499)
Federal Sources	1,569,411	1,569,411	1,876,719	307,308
Other Sources	53,000	53,000	52,651	(349)
TOTAL REVENUES	<u>3,089,652</u>	<u>3,089,652</u>	<u>3,346,371</u>	<u>256,719</u>
EXPENDITURES:				
Instructional	2,365,296	2,365,296	2,622,278	(256,982)
Student Support Services	36,088	36,088	3,662	32,426
Staff Support Services	320,989	320,989	314,015	6,974
District Administration				
School Administration				
Business Support Services				
Plant Operation & Maintenance	88,556	88,556	119,001	(30,445)
Student Transportation				
Central Office				
Community Service Operations	278,723	278,723	287,415	(8,692)
Facility Acquisition & Construction				
Other				
TOTAL EXPENDITURES	<u>3,089,652</u>	<u>3,089,652</u>	<u>3,346,371</u>	<u>(256,719)</u>
NET CHANGE IN FUND BALANCE	0	0	0	0
FUND BALANCES - BEGINNING	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES - ENDING	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>

See accompanying auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
TEACHERS' RETIREMENT SYSTEM  
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
District's proportion of net pension liability	0.00%	0.00%	0.00%	0.00%	0.00%
District's proportionate share of the net pension liability	\$ -	-	-	-	-
State of Kentucky's share of the net pension liability associated with the district	<u>\$ 84,345,557</u>	<u>94,826,480</u>	<u>117,587,135</u>	<u>108,715,095</u>	<u>51,890,013</u>
<b>TOTAL</b>	<u><u>84,345,557</u></u>	<u><u>94,826,480</u></u>	<u><u>117,587,135</u></u>	<u><u>108,715,095</u></u>	<u><u>51,890,013</u></u>
District's covered-employee payroll	\$ 12,829,760	12,915,230	13,073,489	13,233,907	13,220,586
District's proportionate share of the net pension liability as a percentage of its covered-payroll	0.00%	0.00%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	45.59%	44.70%	57.04%	39.80%	59.30%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*

MERCER COUNTY SCHOOL DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
 OF THE NET PENSION LIABILITY  
 COUNTY EMPLOYEES RETIREMENT SYSTEM  
 FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
District's proportion of net pension liability	0.142144%	0.142016%	0.136863%	0.133499%	0.136748%
District's proportionate share of the net pension liability	\$ 4,612,000	6,106,021	6,738,586	7,814,107	8,328,370
State of Kentucky's share of the net pension liability associated with the district	-	-	-	-	-
<b>TOTAL</b>	<b><u>\$ 4,612,000</u></b>	<b><u>6,106,021</u></b>	<b><u>6,738,586</u></b>	<b><u>7,814,107</u></b>	<b><u>8,328,370</u></b>
District's covered-employee payroll	\$ 3,341,312	3,307,880	3,277,894	3,411,902	3,554,169
District's proportionate share of the net pension liability as a percentage of its covered-payroll	138.03%	184.59%	205.58%	229.02%	234.33%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	63.46%	55.50%	53.30%	53.54%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*

MERCER COUNTY SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS TO THE  
TEACHERS RETIREMENT SYSTEM  
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Contractually required contributions (actuarially determined)	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Covered employee payroll	\$ 12,829,760	\$ 12,915,230	\$ 13,073,489	\$ 13,233,907	\$ 13,220,586
Contributions as a percentage of Covered employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*

MERCER COUNTY SCHOOL DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CONTRIBUTIONS TO THE  
 COUNTY EMPLOYEES RETIREMENT SYSTEM  
 FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Contractually required contributions (actuarially determined)	\$ 426,017	\$ 410,839	\$ 457,266	\$ 494,043	\$ 576,487
Contributions in relation to the actuarially determined contributions	<u>426,017</u>	<u>410,839</u>	<u>457,266</u>	<u>494,043</u>	<u>576,487</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Covered employee payroll	\$ 3,341,312	\$ 3,307,880	\$ 3,277,894	\$ 3,411,902	\$ 3,554,169
Contributions as a percentage of Covered employee payroll	12.75%	12.42%	13.95%	14.48%	16.22%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*

MERCER COUNTY SCHOOL DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
 OF THE NET OPEB LIABILITY - MEDICAL INSURANCE  
 COUNTY EMPLOYEES RETIREMENT SYSTEM  
 FOR THE YEAR ENDED JUNE 30

	<u>2018</u>	<u>2019</u>
District's proportion of net OPEB liability	0.133499%	0.136744%
District's proportionate share of the net OPEB liability	2,683,787	2,427,863
State of Kentucky's share of the net OPEB liability associated with the district	-	-
<b>TOTAL</b>	<u><u>2,683,787</u></u>	<u><u>2,427,863</u></u>
District's covered-employee payroll	3,411,902	3,554,169
District's proportionate share of the net OPEB liability as a percentage of its covered-payroll	78.66%	68.31%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%	57.62%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*

MERCER COUNTY SCHOOL DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
 OF THE NET OPEB LIABILITY - MEDICAL INSURANCE PLAN  
 TEACHERS' RETIREMENT SYSTEM  
 FOR THE YEAR ENDED JUNE 30

	2018	2019
District's proportion of net OPEB liability	0.2134%	0.2055%
District's proportionate share of the net OPEB liability	7,608,000	7,131,000
State of Kentucky's share of the net OPEB liability associated with the district	<u>6,215,000</u>	<u>6,146,000</u>
<b>TOTAL</b>	<u><u>13,823,000</u></u>	<u><u>13,277,000</u></u>
District's covered-employee payroll	\$ 13,233,907	\$ 13,220,586
District's proportionate share of the net OPEB liability as a percentage of its covered-payroll	57.49%	53.94%
Plan fiduciary net position as a percentage of the total OPEB liability	21.18%	25.50%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*

MERCER COUNTY SCHOOL DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
 OF THE NET OPEB LIABILITY - LIFE INSURANCE PLAN  
 TEACHERS' RETIREMENT SYSTEM  
 FOR THE YEAR ENDED JUNE 30

	2018	2019
District's proportion of net OPEB liability	0.0000%	0.0000%
District's proportionate share of the net OPEB liability	-	-
State of Kentucky's share of the net OPEB liability associated with the district	83,000	105,000
<b>TOTAL</b>	<b>83,000</b>	<b>105,000</b>
District's covered-employee payroll	\$ 13,233,907	\$ 13,220,586
District's proportionate share of the net OPEB liability as a percentage of its covered-payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total OPEB liability	79.99%	75.00%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*

MERCER COUNTY SCHOOL DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CONTRIBUTIONS TO THE MEDICAL INSUARANCE PLAN  
 COUNTY EMPLOYEES RETIREMENT SYSTEM  
 FOR THE YEAR ENDED JUNE 30

	2018	2019
Contractually required contributions (actuarially determined)	\$ 160,359	\$ 186,949
Contributions in relation to the actuarially determined contributions	160,359	186,949
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 3,411,902	\$ 3,554,169
Contributions as a percentage of Covered employee payroll	4.70%	5.26%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*

MERCER COUNTY SCHOOL DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CONTRIBUTIONS TO THE MEDICAL INSURANCE PLAN  
 TEACHERS RETIREMENT SYSTEM  
 FOR THE YEAR ENDED JUNE 30

	2018	2019
Contractually required contributions (actuarially determined)	\$ 366,655	\$ 396,618
Contributions in relation to the actuarially determined contributions	366,655	396,618
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 12,221,840	\$ 13,220,586
Contributions as a percentage of Covered employee payroll	3.00%	3.00%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*

MERCER COUNTY SCHOOL DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CONTRIBUTIONS TO THE LIFE INSURANCE PLAN  
 TEACHERS RETIREMENT SYSTEM  
 FOR THE YEAR ENDED JUNE 30

	2018	2019
Contractually required contributions (actuarially determined)	\$ -	\$ -
Contributions in relation to the actuarially determined contributions	-	-
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 13,233,907	\$ 13,220,586
Contributions as a percentage of Covered employee payroll	0.00%	0.00%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*

MERCER COUNTY SCHOOL DISTRICT  
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
 OF THE NET PENSION LIABILITY  
 FOR THE YEAR ENDED JUNE 30, 2019

**TEACHERS' RETIREMENT SYSTEM**

**NOTE A – CHANGES OF ASSUMPTIONS**

In the 2016 valuation, rates of withdrawal, retirement, disability, mortality and rates of salary increases were adjusted to more closely reflect actual experience. In the 2016 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables projected to 2025 with projection scale BB, set forward two years for males and one year for females rather than the RP-2000 Mortality Tables projected to 2020 with projection scales AA, which was used prior to 2016.

In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables projected to 2020 with projection scale AA, set back one year for females rather than the 1994 Group Annuity Mortality Tables which was used prior to 2016. For the 2011 valuation through the 2013 valuation, an interest smoothing methodology was used to calculate liabilities for purposes of determining the actuarially determined contributions.

**NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS**

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of the schedule:

Actuarial Cost Method	Entry age
Amortization Period	Level percentage of payroll, open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	3.5 percent
Salary Increase	4.00 to 8.20 percent, including inflation
Ultimate Investment rate of return	7.50 percent, net of pension plan investment Expense, including inflation

**NOTE C – CHANGES OF BENEFITS**

There were no changes in benefits for TRS pension.

MERCER COUNTY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2019

**COUNTY EMPLOYEES RETIREMENT SYSTEM**

**NOTE A – CHANGES OF ASSUMPTIONS**

2015

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

The assumed investment rate of return was decreased from 7.75% to 7.50%

The assumed inflation rate was reduced from 3.5% to 3.255%

The assumed rate of wage inflation was reduced from 1.00% to .75%

Payroll growth assumption was reduced from 4.5% to 4%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females)

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

2016

There were no changes of assumptions for the year ended June 30, 2016.

2017

The following changes were made by the KRS Board of Trustees and reflected in the valuation performed as of June 30, 2017:

The assumed rate of inflation was reduced to 2.30% from 3.25%

The assumed salary increases were reduced to 3.05%, average, from 4.00%, average including inflation

The assumed investment rate of return was reduced to 6.25% from 7.50%

2018

There were no changes in assumptions.

MERCER COUNTY SCHOOL DISTRICT  
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
 OF THE NET PENSION LIABILITY  
 FOR THE YEAR ENDED JUNE 30, 2019

**COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)**

**NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS**

The actuarially determined contribution rates in the schedule of contribution are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2016. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the rates reported in that schedule:

Valuation Date	June 30, 2018
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	28 years, Closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25 percent
Salary Increase	4.0 percent, average
Investment Rate of Return	7.5 percent, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

**NOTE C – CHANGES OF BENEFITS**

There were no changes in benefits for CERS pension.

MERCER COUNTY SCHOOL DISTRICT  
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
 OF THE NET OPEB LIABILITY  
 FOR THE YEAR ENDED JUNE 30, 2019

**TEACHERS' RETIREMENT SYSTEM**

**NOTE A – CHANGES OF ASSUMPTIONS**

2017

There were no changes in assumptions.

2018

There were no changes in assumptions.

**NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS**

*Methods and assumptions used in the actuarially determined contributions* – The actuarially determined contribution rates, as a percentage of payroll, used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the year ending June 30, 2018:

Valuation date	June 30, 2018
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	30 years, Open
Asset valuation method	Five-year smoothed value
Inflation	3.00%
Real wage growth	0.50%
Wage inflation	4.00%
Salary increases, including wage inflation	3.5% - 7.20%
Discount rate	8.00%
Health care cost trends	
Under 65	7.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023
Ages 65 and older	5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020
Medicare Part B premiums	1.02% for FY 2017 with an ultimate rate of 5.00% by 2029
Under age 65 claims	the current premium charged by KEHP is used as the base cost and is projected forward using only the health care trend assumption (no implicit rate subsidy is recognized).

**NOTE C – CHANGES OF BENEFITS**

*Changes of benefit terms* – With the passage of House Bill 471, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010 is restored, but the state will only finance, via its KEHP “Shared Responsibility” contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

MERCER COUNTY SCHOOL DISTRICT  
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
 OF THE NET OPEB LIABILITY  
 FOR THE YEAR ENDED JUNE 30, 2019  
COUNTY EMPLOYEES RETIREMENT SYSTEM

**NOTE A – CHANGES OF ASSUMPTIONS**

2017

The assumed investment return was changed from 7.5% to 6.2%

The price inflation assumption was changed from 3.25% to 2.30% which resulted in a .95% decrease in the salary increase assumption at all years of service

The payroll growth assumption (\*applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.0% to 2.0%

For the non-hazardous plan, the single discount rate changed from 6.89% to 5.84%. For the hazardous plan the single discount rate changed from 7.37% to 5.96%

2018

There were no changes in assumptions.

**NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS**

*Methods and assumptions used in the actuarially determined contributions* – The actuarially determined contribution rates, as a percentage of payroll, used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the year ending June 30, 2018:

Valuation Date	June 30, 2018
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	28 years, Closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25 percent
Salary Increase	4.0 percent, average
Investment Rate of Return	7.5 %
Healthcare cost trend rates	
Under 65	Initial trend starting at 7.5% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years
Ages 65 and Older	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

**NOTE C – CHANGES OF BENEFITS**

There were no changes in benefits for CERS OPEB.

OTHER SUPPLEMENTARY  
INFORMATION

MERCER COUNTY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2019

	CAPITAL OUTLAY FUND	BUILDING FUND	DEBT SERVICE FUND	DISTRICT ACTIVITY FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
<b>ASSETS:</b>					
Cash & Cash Equivalents	510	1,219		400,471	402,200
Accounts Receivable				1,617	1,617
<b>TOTAL ASSETS</b>	<b>510</b>	<b>1,219</b>	<b>0</b>	<b>402,088</b>	<b>403,817</b>
<b>LIABILITIES AND FUND BALANCES:</b>					
Liabilities:					
Accounts Payable					0
Total Liabilities	0	0	0	0	0
Fund Balances:					
Restricted for:					
SFCC Escrow	510	1,219			1,729
School Activities				402,088	402,088
Total Fund Balances	510	1,219	0	402,088	403,817
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>510</b>	<b>1,219</b>	<b>0</b>	<b>402,088</b>	<b>403,817</b>

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES  
 NON-MAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2019

	CAPITAL OUTLAY FUND	BUILDING FUND	DEBT SERVICE FUND	DISTRICT ACTIVITY FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:					
Taxes		2,055,702			2,055,702
Intergovernmental - State	248,932	705,624	151,343		1,105,899
Earnings on Investments			955		955
Other Sources				306,547	306,547
<b>TOTAL REVENUES</b>	<u>248,932</u>	<u>2,761,326</u>	<u>152,298</u>	<u>306,547</u>	<u>3,469,103</u>
EXPENDITURES:					
Instructional				287,888	287,888
Staff Support Services				18,738	18,738
Debt Service:					
Principal			2,195,000		2,195,000
Interest			679,390		679,390
<b>TOTAL EXPENDITURES</b>	<u>0</u>	<u>0</u>	<u>2,874,390</u>	<u>306,626</u>	<u>3,181,016</u>
<b>EXCESS(DEFICIT) REVENUES OVER EXPENDITURES</b>	248,932	2,761,326	(2,722,092)	(79)	288,087
OTHER FINANCING SOURCES(USES):					
Operating Transfers In			2,722,092		2,722,092
Operating Transfers Out	(248,932)	(2,760,371)			(3,009,303)
<b>TOTAL OTHER FINANCING SOURCES(USES)</b>	<u>(248,932)</u>	<u>(2,760,371)</u>	<u>2,722,092</u>	<u>0</u>	<u>(287,211)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>0</u>	<u>955</u>	<u>0</u>	<u>(79)</u>	<u>876</u>
<b>FUND BALANCES - BEGINNING</b>	<u>510</u>	<u>264</u>	<u>0</u>	<u>402,167</u>	<u>402,941</u>
<b>FUND BALANCES - ENDING</b>	<u><u>510</u></u>	<u><u>1,219</u></u>	<u><u>0</u></u>	<u><u>402,088</u></u>	<u><u>403,817</u></u>

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES  
 AGENCY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2019

	FUND BALANCE JULY 1, 2018	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2019
Mercer County Senior High School	59,890	292,291	292,724	59,457
King Middle School	34,714	165,172	158,037	41,849
Mercer County Intermediate School	10,399	39,533	41,149	8,783
Mercer County Elementary School	9,326	35,642	40,717	4,251
Total Activity Funds (Due to Student Groups)	<u>114,329</u>	<u>532,638</u>	<u>532,627</u>	<u>114,340</u>

See independent accountant's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE  
HIGH SCHOOL ACTIVITY FUND  
FOR THE YEAR ENDED JUNE 30, 2019

	CASH			CASH	ACCOUNTS	ACCOUNTS	FUND
	BALANCE	RECEIPTS	DISBURSEMENTS	BALANCE	RECEIVABLE	PAYABLE	BALANCE
	JULY 1, 2018			JUNE 30, 2019	JUNE 30, 2019	JUNE 30, 2019	JUNE 30, 2019
General Fund	5,757	985	2,220	4,522	0	0	4,522
Pennies 4 Patients	0	1,733	1,733	0	0	0	0
Donations	0	2,142	2,142	0	0	0	0
Donation WHAS	6	0	0	6	0	0	6
Destitute Senior Expense	546	0	240	306	0	0	306
Titan School Store	1,389	1,296	2,555	130	0	0	130
Student Vending	211	1,042	363	890	0	0	890
Pep Club	160	356	238	278	0	0	278
Weights	0	4,044	3,631	413	0	0	413
THIRST	0	176	176	0	0	0	0
Academic Breakfast	409	0	409	0	0	0	0
Faculty Fund	891	4,373	4,076	1,188	0	0	1,188
Athletics-General	5,148	71,180	71,328	5,000	0	0	5,000
Beta Club	578	1,021	514	1,085	0	0	1,085
Beta Scholarship	620	0	0	620	0	0	620
Chess Club	359	130	0	489	0	0	489
MCHS Book Club	766	280	343	703	0	0	703
KYA/KUNA	556	3,872	4,338	90	0	0	90
FCA Club	920	0	0	920	0	0	920
Republican Club	111	0	0	111	0	0	111
Journalism	121	0	121	0	0	0	0
Unity Club	0	231	34	197	0	0	197
FFA Club	7,320	25,894	21,491	11,723	0	0	11,723
FCCLA CLUB	1,508	4,619	5,029	1,098	0	0	1,098
Engineering Club	189	205	0	394	0	0	394
FEA Club	117	13	0	130	0	0	130
NHS	778	420	109	1,089	0	0	1,089
Spanish Club	1,106	341	481	966	0	0	966
Student Council	830	0	0	830	0	0	830
Pass Program	12	0	12	0	0	0	0
Key Club	183	286	393	76	0	0	76
Film	129	784	792	121	0	0	121
Poetry Club	147	0	147	0	0	0	0
Envirothon Team	300	100	325	75	0	0	75
TATU Club	508	0	508	0	0	0	0
Driver Ed	0	3,690	3,690	0	0	0	0
Yearbook	12,288	5,832	5,867	12,253	0	0	12,253
Class of 2020	3,922	10,253	5,003	9,172	0	0	9,172
Class of 2022	0	1,563	585	978	0	0	978
Class of 2018	1,059	0	1,058	1	0	0	1
Class of 2019	8,951	13,759	21,102	1,608	0	0	1,608
Class of 2021	1,995	0	0	1,995	0	0	1,995
Senior Trip	0	3,935	3,935	0	0	0	0
Sweep	0	156,996	156,996	0	0	0	0
Total All Funds	59,890	321,551	321,984	59,457	0	0	59,457
Interfund Transfers		(29,260)	(29,260)				0
Total	59,890	292,291	292,724	59,457	0	0	59,457

MERCER COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2019

<u>FEDERAL GRANTOR/PASS-THROUGH</u> <u>GRANTOR/PROGRAM TITLE</u>	<u>CFDA</u> <u>NUMBER</u>	<u>PASS</u> <u>THROUGH</u> <u>NUMBER</u> <u>(if applicable)</u>	<u>MUNIS</u> <u>PROJECT</u> <u>NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Education</u>				
Passed-Through Department of Education				
Title I - Grants to Local Educational Agencies	84.010	3100002	310D	184,322
Title I - Grants to Local Educational Agencies	84.010	3100002	310E	561,156
Title I - Parent Involvement	84.010	3100002	310CM	2,279
Title I - Parent Involvement	84.010	3100002	310DM	1,383
Title I Grants to Local Educational Agencies Total				749,140
 Title I, Neglected and Delinquent Children and Youth	 84.013	 313E	 313E	 16,036
 Title II, Part A -Teacher Quality Enhancement Grants	 84.367	 3230002	 401D	 113,069
Title II, Part A -Supporting Effective Instruction State Grants	84.367	3230002	401E	34,829
Title II - Part A Total				147,898
 Rural and Low Income Schools	 84.358	 3140002	 350D	 47,645
Rural and Low Income Schools	84.358	3140002	350E	18,176
Rural and Low Income Schools Total				65,821
 Perkins Voc.	 84.048	 3710006	 348DA	 1,054
Perkins Voc.	84.048	3710006	348E	27,590
Perkins Voc. Total				28,644
 Title IV, Part A - Student Support and Academic Enrichment	 84.424	 342002	 552ES	 22,333
Title IV, Part A - Student Support and Academic Enrichment	84.424	342002	552EW	14,239
Title IV, Part A - Student Support and Academic Enrichment Total				36,572
 IDEA - Special Education - Grants to State	 84.027	 3810002	 337D	 243
IDEA - Special Education - Grants to State	84.027	3810002	337E	651,131
IDEA - Special Education - Preschool Grants	84.173	3800002	343D	4,297
IDEA - Special Education - Preschool Grants	84.173	3800002	343E	51,178
Special Education Cluster				706,849
 Passed Through Berea College				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	614E	614E	2,095
 Total U.S. Department of Education				1,753,055

U.S. Department of Agriculture

Passed-Through State Department of Education

Summer Meal Program	10.559	7690024-18	7690024-18	1,372
Summer Meal Program	10.559	7690024-19	7690024-19	173
Summer Meal Program	10.559	7740023-18	7740023-18	13,167
Summer Meal Program	10.559	7740023-19	7740023-19	1,675
National School Lunchroom	10.555	7750002-18	7750002-18	208,629
National School Lunchroom	10.555	7750002-19	7750002-19	738,091
School Breakfast Program	10.553	7760005-18	7760005-18	59,238
School Breakfast Program	10.553	7760005-19	7760005-18	201,572
Child Nutrition Cluster				<u>1,223,917</u> *

Child & Adult Care Food Program	10.558	7790021-18	7790021-18	2,923
Child & Adult Care Food Program	10.558	7790021-19	7790021-19	27,159
Child & Adult Care Food Program	10.558	7800016-18	7800016-18	208
Child & Adult Care Food Program	10.558	7800016-19	7800016-19	1,928
Child & Adult Care Food Program Total				<u>32,218</u>

Pass-Through State Department of Agriculture

Food Distribution	10.565	057502-10	057502-10	<u>97,296</u>
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Total U.S. Department of Agriculture

1,353,431

Total Federal Financial Assistance

3,106,486

\* Tested as major program

MERCER COUNTY SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2019

**NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Mercer County School District under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Mercer County School District, it is not intended to and does not present the financial position, changes in net asset, or cash flows of Mercer County School District.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting for proprietary funds and the modified accrual basis of accounting for governmental funds. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are present where available.

**NOTE C – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

**NOTE D – DE MINIMIS COST RATE**

The District did not elect to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.

**NOTE E – SUBRECIPIENTS**

There were no subrecipients during the fiscal year.

MERCER COUNTY SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2019

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of audit issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes      X   None Reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes      X   No

**Federal Awards**

Internal control over major programs?

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes      X   None Reported

Type of auditor’s report issued on compliance for major programs (unmodified):

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a) ? \_\_\_\_\_ Yes      X   No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555/10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?   X   Yes    \_\_\_\_\_ No

**Section II – Financial Statement of Findings**

No matters were reported.

**Section III – Federal Award Findings and Questioned Costs**

No matters were reported.

MERCER COUNTY SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2019

There were no prior year audit findings.

**WHITE AND COMPANY, P.S.C.**  
**Certified Public Accountants**  
**219 South Proctor Knott Avenue**  
**Lebanon, Kentucky 40033**  
**(270) 692-2102**  
**Fax (270) 692-2101**

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Stephanie A. Abell, CPA

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October 30, 2019

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Members of the Board of Education  
Mercer County School District  
Harrodsburg, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract*, *Audit Acceptance Statement*, *AFR and Balance Sheet*, *Statement of Certification*, and *Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mercer County School District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Mercer County School District's basic financial statements, and have issued our report thereon dated October 30, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Mercer County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mercer County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mercer County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mercer County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no material instances of noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain matters that we reported to management of Mercer County School District in a separate letter dated October 30, 2019.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

**WHITE AND COMPANY, P.S.C.**  
**Certified Public Accountants**  
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Charles M. White, CPA  
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October 30, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY THE UNIFORM GUIDANCE**

Members of the Board of Education  
Mercer County School District  
Harrodsburg, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited Mercer County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Mercer County School District's major federal programs for the year ended June 30, 2019. Mercer County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Mercer County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and *Appendix I to the Independent Auditor's Contract – Audit Extension Request, Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, and Audit Report*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mercer County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Mercer County School District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Mercer County School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

### **Report on Internal Control Over Compliance**

Management of Mercer County School District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Mercer County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mercer County School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mercer County School District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Mercer County School District's basic financial statements. We issued our report thereon dated October 30, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

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October 30, 2019

**MANAGEMENT LETTER**

Members of the Board of Education  
Mercer County School District  
Harrodsburg, Kentucky

In planning and performing our audit of the financial statements of Mercer County School District for the year ended June 30, 2019, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

**Prior Year Recommendations – School Activity Funds:**

**2017-1 Prior Year Recommendation:**

During the 2017 audit, cash receipts for the school activity funds were tested. During that testing, it was noted that at King Middle School, there was a receipt for a class trip where the students submitting the funds did not sign the multiple receipt form. Redbook states, "Students third grade and above must sign the Multiple Receipt Form." We suggest that all teachers and sponsors be made aware that students third grade and above must sign the multiple receipt form at the time that funds are remitted by the students.

During the 2018 audit, a single instance at Mercer County Intermediate School, Mercer County Senior High School, and King Middle School was found where sponsors or teachers were filling in student names on the multiple receipt form. We recommend that all teachers, sponsors, bookkeepers and school administrators be informed and require students third grade and above to sign multiple receipt forms in accordance with Redbook policies and procedures.

**Current Year Status and Recommendation:**

During the current year audit, three instances were noted at King Middle School and one instance at Mercer County Senior High School of teachers/sponsors signing the name and amount remitted from students when collecting money or failing to properly complete the multiple receipt form. It is required that students 3<sup>rd</sup> grade and above sign the multiple receipt form when remitting funds and that teachers/sponsors properly and fully complete the multiple receipt form. We recommend that all school staff be reminded of and follow these Redbook requirements.

Management Response:

We will communicate to all teachers and sponsors that it is required that students 6<sup>th</sup> grade and above sign the multiple receipt form at the time funds are remitted for years 2020 and forward to be in compliance with the updated Redbook standards. We will also remind teachers and sponsors to fully and properly complete the multiple receipt form prior to submitting it to the school bookkeeper.

2018-1 Prior Year Recommendation:

During the prior year audit, one instance was found at Mercer County Elementary School of a purchase order approved after the charge was incurred. We recommend that all disbursements be supported by a purchase order that has been properly approved prior to the date the charge is incurred in accordance with Redbook policies and procedures.

Management Response:

We will ensure that approval is obtained prior to the funds being committed for goods or services.

Current Year Status and Recommendation:

During the current year audit, one instance was noted at Mercer County Elementary School of charges occurring prior the issuance of a purchase order. We recommend that a purchase order be issued prior to any charges being made.

Management Response:

For the fiscal year ended June 30, 2020, accounting for the activity funds has been brought to the District level. We will emphasize the requirement to District employees to ensure that charges are not incurred without a properly approved purchase order.

2018-2 Prior Year Recommendation:

One instance was found during current year audit testing of Mercer County Senior High School activity funds of disbursements made without appropriate supporting documentation such as the applicable invoice or receipt. We recommend that all disbursements contain proper supporting documentation in accordance with Redbook policies and procedures.

Current Year Status and Recommendation:

No such instances were noted at Mercer County Senior High School during the current year audit. However, two instances were noted at Mercer County Elementary School during current year testing. We recommend that all disbursements contain proper supporting documentation in accordance with Redbook policies and procedures.

Management Response:

For the fiscal year ended June 30, 2020, accounting for the activity funds has been brought to the District level. We will emphasize the requirement to District employees the importance of maintaining appropriate supporting documentation.

**Current Year District Recommendations:**

2019-1 Current Year Recommendation:

During the current year audit, seven instances were noted of charges occurring prior the issuance of a purchase order. We recommend that a purchase order be issued prior to any charges being incurred.

Management Response:

We will emphasize the requirement to issue purchase orders prior to a charge occurring.

**Current Year Recommendations – School Activity Funds:**

2019-2 Current Year Recommendation:

During the current year audit, five instances were noted at King Middle School of charges occurring prior the issuance of a purchase order. We recommend that a purchase order be issued prior to any charges being made.

Management Response:

For the fiscal year ended June 30, 2020, accounting for the activity funds has been brought to the District level. We will emphasize the requirement to District employees to ensure that charges are not incurred without a properly approved purchase order.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

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October 30, 2019

Members of the Board of Education  
Mercer County School District  
Harrodsburg, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mercer County School District for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 3, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters:

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting polices used by Mercer County School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2019. We noted no transactions entered into by Mercer County School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the sick leave liability is based on current pay rates and those currently eligible for retirement. We evaluated the key factors and assumptions used to develop the sick leave liability in determining that it is reasonable in relation to the financial statements taken as a whole.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management had corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 30, 2019.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Mercer County School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were not such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Mercer County School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

We applied certain limited procedures to management's discussion and analysis and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the budgetary comparison information on pages 54 and 55, or on the schedules of the district's proportionate share of net pension liabilities and other post-employment benefit plans on pages 56-57 and 60-62, or on the schedules of contributions to the County Employees Retirement System and Teachers Retirement System pension plans or the County Employees Retirement System and Teachers Retirement System other post-employment benefit plans on pages 58-59 and 63-65, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of Members of the Board of Education and management of Mercer County School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants